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December 1, 2009

VIA ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: WC Docket No. 05-337, WC Docket No. 06-122, CC Docket No. 96-45 – *Comment Sought on Request for Universal Service Fund Policy Guidance Requested by the Universal Service Administrative Company,* Notice of Ex Parte Presentation

Re: WC Docket No. 06-122 – *Request for Review by Network Enhanced Telecom, LLP of Decision of Universal Service Administrator,* Notice of Ex Parte Presentation

Dear Secretary Dortch:

On December 1, 2009, Jim Continenza, President of STi Prepaid, LLC ("STi"); Thomas D'Aurio, Chief Financial Officer of STi; David Larsen, STi Board of Director, and the undersigned met with Vickie Robinson, Acting Assistant Division Chief of the Telecommunications Access Policy Division, Wireline Competition Bureau; and Cindy Spiers, Claudia Fox, Carol Pomponio, Erica Myers, and Nicholas Degani of the Telecommunications Access Policy Division, Wireline Competition Bureau. The participants discussed the need for more active FCC enforcement of existing rules to ensure effective and fair competition. STi also urged the Commission to rationalize the Universal Service Fund by requiring prepaid service providers to report only the revenues they actually receive.

Please contact the undersigned if you have any questions regarding this matter.

Respectfully submitted,

/s/ Chérie R. Kiser

Chérie R. Kiser

Enclosure

cc: Vickie Robinson
Cindy Spiers
Claudia Fox
Carol Pomponio
Erica Myers
Nicholas Degani

STi Prepaid, LLC

December 1, 2009

STi Prepaid, LLC

- STi Prepaid, LLC (“STi”) is one of the largest providers of international and domestic prepaid long distance services in the U.S.
- STi sells over 200 million prepaid calling cards per year
- STi’s sells prepaid LD services in all 50 states
- Cards are primarily sold in small convenience stores and bodegas, and through national retailers such as 7-11 and Dollar General. Prepaid LD services are also available directly via STi’s website.
- STi’s prepaid rates are often less than 50% of the rates charged by the large IXCs.

Organizational Structure

- STi was formed in December 2006 and purchased the prepaid phone card assets of Telco Group, Inc. in March 2007.
- In 2008, STi purchased the prepaid calling card assets of Sprint and CVT Prepaid.
- STi is 75% owned by Leucadia National Corporation. Leucadia controls the company's board and is actively involved in day-to-day management of the company.
- Leucadia is a publicly-traded company on the NYSE with a market capitalization of over $5 billion.
- STi is SOX and SEC compliant as a subsidiary of Leucadia.
- STi is based in New York City and employs 120 people in the United States.

Business Philosophy

- STi pursues best practices in promoting its prepaid LD products. It is working to define the industry standard for prepaid calling card practices that promote easy-to-understand products. This standard includes disclosure of all rates, fees, and limitations – clearly explained and conspicuously displayed on calling cards, posters, and websites.

- STi provides an important cost-effective service to consumers. Immigrants, military families, foreign exchange students, lower income Americans, and others without alternative financially viable phone service options rely on STi's prepaid service as a low cost communications option of last resort.

Industry Participants

- Large IXCs
  - Typically sold only in large national retailers.
  - Typically provide uncompetitive international rates.
- Legitimate Providers
  - Follow basic advertising standards that are consistent with FCC and FTC guidance.
  - Comply with FCC regulations and contribution obligations, fees and surcharges.
- Aggressive Gray Providers
  - Sporadically follow basic advertising standards. Often use questionable techniques to trick customers.
  - Unlikely to comply with FCC regulations, registration or contribution obligations.
  - Often internationally based and do not own their own network. Rely on debit platforms of others.
  - Often do not identify provider of service.
  - Tailor their business models for quick profitability by maximizing customer confusion. The customer cost-per-minute for long-distance services by such providers may be up to 85% higher than customer expects

Action from the FCC is Needed

- Historically permissive enforcement of existing regulation and lack of clear guidance has spurred behavior that is anti-consumer and anti-public interest.
  - While competition is generally a powerful force for ensuring equitable service in the telecommunications market, it "can only be expected to act as an effective governor of carrier conduct if the competition is fair and being played out on a level playing field."
  - In the fractured prepaid long distance service market there is a strong competitive advantage to non-participation in industry best practices.
  - The impact of deceptive practices is exacerbated by non-participation in the payment of regulatory fees.
- Legitimate prepaid calling card companies are paying more than their fair share of regulatory fees
  - Regulatory fees exceed operating income.
  - Petitions for relief have gone unheeded.

The Result: Customers are being harmed and legitimate providers are being driven out of business

Key Next Steps

- Increase enforcement of regulations to ensure effective and fair competition.
  - Enact truth-in-billing suggestions
  - Enforce registration requirements
  - Actively enforce fees and surcharge requirements

- Rationalize applicable USF, TRS, and other regulatory regimes to ensure they are appropriately applied to prepaid long distance service providers.

Universal Service Fund – Face Value

- Numerous parties with diverse interests agree that revenue reporting should be based on revenues actually received for the provision of telecommunications services.

- Face-Value reporting requirements are contrary to GAAP and tax laws.

- Calculating USF contributions based on the face value sale of prepaid cards discriminates against prepaid carriers, the only class of carriers required to report revenue they never receive as USF-contribution eligible revenues.
  - All other telecommunications carriers contribute to USF based on the revenue collected from their direct customers. In addition, if other telecommunications carriers are unable to actually collect the amount customers are billed, they are allowed to deduct the uncollected amount from their reported revenues.

- The effect face value reporting has on prepaid carriers extends beyond USF fees because the revenue reported on Form 499-A is used as the basis for determining contribution obligations for other federal funds and FCC regulatory fees.

USF Contribution Assessment Reforms

- Modify the Form 499-A Instructions to ensure that prepaid service providers are only required to report revenues they actually receive.

- Permit prepaid service providers to deduct the difference between the face value of a prepaid card and the revenue actually received by the prepaid carrier as “uncollectible” revenue.

NetworkIP

- Noncompliance with USF reporting requirements evinces the need for more active FCC enforcement of existing rules.

- The Commission has recognized that it is not in the public interest to leave prepaid long distance service providers with substantial discretion to determine whether they are subject to FCC rules and regulations.

- Reseller certification procedures must ensure that all required carriers are contributing to USF.

- When prepaid service providers flout FCC rules and regulations valuable universal service contributions are lost, customers may receive substandard service, and compliant prepaid carriers can be undercut and forced from the market by non-compliant competitors.